Testimony of
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Mr. Chairman and members of the Subcommittee, thank you for the opportunity to be here today. My name is Russell Redding, Executive Deputy Secretary of the Pennsylvania Department of Agriculture. I am pleased to participate on this panel and explain how the Department has worked over the past several years to address the crop insurance needs of our specialty crop producers.

The drought of 1999 served as a wake-up call for Pennsylvania producers. They realized that crop disasters do happen in Pennsylvania. The state provided a $60 million disaster assistance program to producers to strengthen agriculture. This was in addition to the USDA's disaster program. Participation in crop insurance was low at the time but did pay producers $22.5 million for crop losses.

In 1998, producer participation in crop insurance programs included about 20 percent of the eligible acres in Pennsylvania. The perception of crop insurance and risk management in general was that such programs did not work well at the farm level, unless the grower mirrored the typical mid-west operation. Producers spoke of a lack of effective crop programs and crop quality protection that was out of sync with eastern markets. Producers also had difficulty with the requirement that they must have third party verifiable records (which were available only for commercial grain producers) to qualify for actual production history coverage.

The Pennsylvania Department of Agriculture recognized the value of improving farm level risk management at both the micro and macro levels. A producer task force was established to formulate recommendations to improve the crop insurance program so that it would work as well for Pennsylvania farms as it did in the Midwest and Great Plains states. The goal was for the program to be available statewide to all producers and at an affordable price.

As part of the 1999 state disaster legislation, some funding was provided for crop insurance grants as an incentive for producers to buy meaningful crop insurance protection in future years. From a public policy standpoint, increasing producer participation in crop insurance programs would increase the financial security of producers at the farm level and reduce the need for future, costly state disaster assistance.

The 2000 ARPA crop insurance reform was a boost to the process, as it provided additional cost share, making higher levels of coverage more meaningful and affordable, and provided authority for outside development of new or improved products and seed money for more aggressive educational efforts in low-participation states.

In 2002, the Pennsylvania Department of Agriculture developed an improved and streamlined version of the Adjusted Gross Revenue (AGR) program called AGR-Lite. Although the policy size was quite limited ($100,000 of liability per policy), it provided more streamlined, whole-farm coverage that provided protection for almost all commodities, including the production of animals and by-products such as milk. It was based on readily-available income tax records and guaranteed a combination of production, quality, and price, based on the producer's actual history. About 60 AGR-Lite policies were written in the first year alone versus only seven (7) AGR policies written after 5 years of marketing efforts.

The Pennsylvania Department of Agriculture, in cooperation with Penn State University and RMA/USDA, launched an annual, intensive producer education program to encourage producers to make broader use of federally-sponsored risk management programs. By 2002, producer enrollment doubled to about 14,000 policyholders with insurance protection of $222 million for a producer paid premium of $5.7 million. Because of the devastating drought, producers received $63.6 million in crop loss payments. So, with about $1.5 million annually of state provided producer cost share and considerable producer educational efforts, annual protection at the farm level increased about $100 million and the state avoided the need for a another costly disaster aid program.

USDA Secretary Venneman, in 2003, authorized the use of funds from the American Management Assistance Program (AMA) of the Farm Bill as an additional producer premium cost share on spring planted crops in order to make the higher, more meaningful crop insurance coverages more affordable. With only a three-week enrollment period, Pennsylvania producer response was outstanding. About 60% of the producers using crop insurance bought coverage of 75% or greater of their historical yields in 2003, an increase from 20% of producers in 2002. It is estimated that the resulting buy-up coverage will yield an increase from $80 to $100 million in protection for Pennsylvania producers, from about $6.5 million of USDA-authorized AMA mandatory cost share funds, because policies are more affordable.

Furthermore, in the 15 low- participation states, it is estimated that producers purchased about $200 to $250 million in increased protection (a 25% increase from 2002) because of the increased USDA cost share of about $15 million. The positive producer response to this USDA initiative may well have been the most significant one year change of producer risk management preparedness of all time.

Pennsylvania Producer Needs:

Specialty crops – These crops are taking on increased importance as more growers are producing for local and metropolitan markets in order to survive. Most of these crops are either currently uninsurable or coverage is limited to a few counties. Much remains to be done in this area.

Forages – There are 2 million acres of forage crops produced without a meaningful crop insurance program in place. The program currently available does not recognize quality which is of paramount importance to Pennsylvania producers.

Tree, Vine and Bush – Pennsylvania had an outbreak of Plum Pox several years ago. Grower losses have been partially covered by indemnification programs. It is critical that a meaningful crop insurance coverage be provided for these producers.

Fruit Programs – While there is reasonably good participation in the apple, peach and grape programs, there is a deficiency in the quality protection of the policies and in the case of grapes, coverage needs to be expanded to additional counties.

AGR/AGR-Lite – These whole-farm coverage programs currently make crop insurance available on many of the otherwise uninsured commodities. However, considerable work remains to make these programs work as well as they should for producers. The twelve-state AGR-Lite proposal for 2004 currently before the FCIC Board of Directors is a must-have proposal in order to provide meaningful protection to the small to mid-sized producers of animals and by-products such as milk. Higher levels of coverage in these plans also need to be explored to be consistent with the producer needs and the authorization of the 2000 ARPA. AGR should be expanded statewide and streamlined to fit the needs of larger producers.

Summary

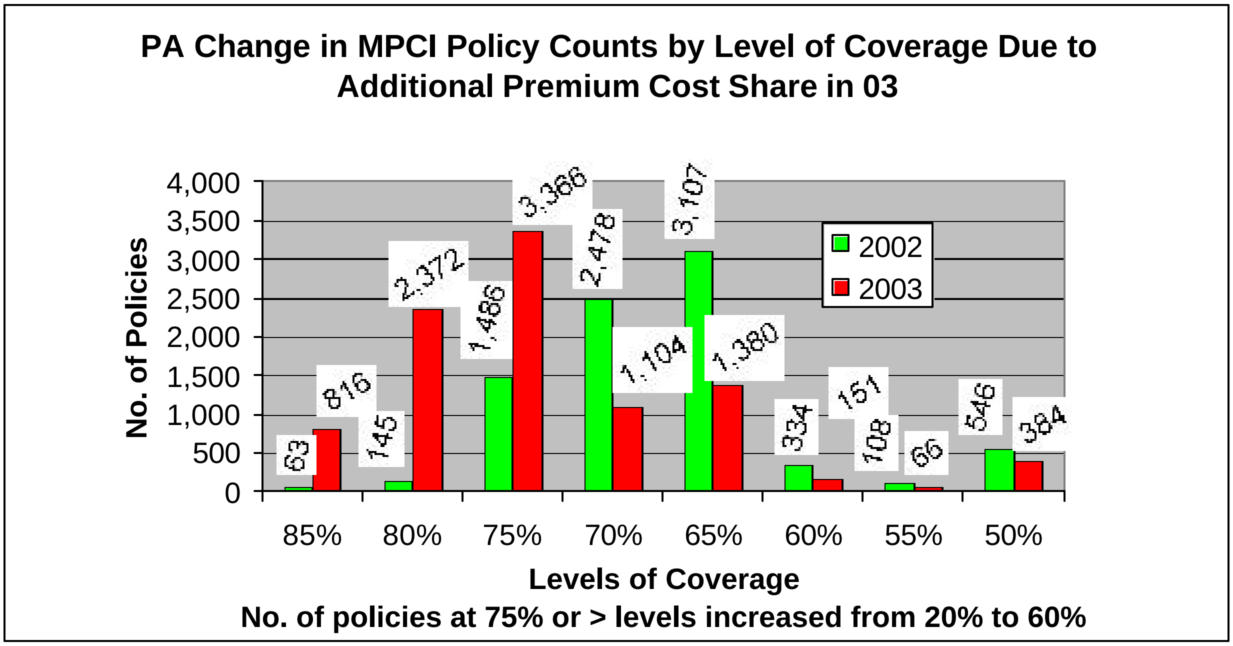
Promoting improved farm-level risk management has been a good public policy for the Pennsylvania Department of Agriculture and has added financial strength on thousands of Pennsylvania farms. With repeated disasters within the last several years, crop insurance has been the cornerstone for the survival of Pennsylvania farms.

At the functional level, there is still much that can be done to improve crop insurance so that it better fits the needs of Pennsylvania producers. We pledge to continue this effort as evidenced through the submission of three 508h risk management proposals submitted to the USDA/RMA on behalf of 12 northeastern states.

We also ask Congress to commend the USDA for the additional premium cost share from Farm Bill AMA funds for 2004 crops. The $15 million in estimated cost share dollars that generated an estimated $200 million in farm level protection was a public policy bargain that should be repeated.

Pennsylvania Producers' Benefit From Additional Crop Insurance Cost Share

Spring Enrollment Highlight: USDA/RMA made additional crop insurance premium cost share money available that provided up to an additional 50% discount to the producers' cost of 75% and higher levels of coverage. Producer response was outstanding. For 2003, many of the producers chose to use the discounts to purchase protection at 75% or greater levels of coverage. The chart shows the impact of the additional cost share on Buy-Up coverage. The actions by producers when increased protection became more affordable are a testament to their desire for improved protection to the extent that it is affordable.



PA producers enjoy $80 to $100 million of additional protection in 2003 because of the added USDA cost share.

Performance of MPCI in Targeted States - PA

Source: USDA most data as of 3/21/03; 02 loss data 6/03/03

State	Year	Total Crop Policies	Protection In Force ($)	Acres Insured	Total Premium ($)	Producer Premium ($)	Losses Paid ($) As of 3/21/03	Producer Benefit/Cost Ratio	Loss Ratio
PENNSYLVANIA	88		8,279,166	41,409	588,877	444,954	1,691,037	3.80	2.87
PENNSYLVANIA	89		36,170,524	268,763	2,569,310	1,843,944	2,748,551	1.49	1.07
PENNSYLVANIA	90		25,241,895	195,979	1,867,667	1,342,709	1,510,013	1.12	0.81
PENNSYLVANIA	91		17,628,717	123,357	1,242,526	899,294	6,487,465	7.21	5.22
PENNSYLVANIA	92		22,948,708	162,400	1,737,641	1,255,542	2,179,969	1.74	1.25
PENNSYLVANIA	93		23,386,879	177,136	1,790,082	1,279,756	4,096,983	3.20	2.29
PENNSYLVANIA	94		25,777,064	201,253	2,305,893	1,641,359	1,453,872	0.89	0.63
PENNSYLVANIA	95	10,745	72,142,405	735,058	4,760,689	1,448,607	5,215,273	3.60	1.10
PENNSYLVANIA	96	8,500	74,754,880	594,729	5,370,601	1,891,539	2,798,147	1.48	0.52
PENNSYLVANIA	97	7,094	76,761,707	558,883	5,146,381	1,862,749	9,558,588	5.13	1.86
PENNSYLVANIA	98	6,064	79,456,733	519,681	5,575,329	2,300,937	5,358,217	2.33	0.96
PENNSYLVANIA	99	7,005	110,996,708	609,052	6,863,407	2,323,363	22,470,052	9.67	3.27
PENNSYLVANIA	00	11,602	162,210,837	941,218	11,681,648	3,931,058	6,474,594	1.65	0.55
PENNSYLVANIA	01	11,822	186,790,076	978,658	13,962,714	3,854,986	18,176,779	4.72	1.30
PENNSYLVANIA	02	14,044	222,397,942	1,121,613	19,073,570	5,732,528	63,594,119	11.09	3.33
PENNSYLVANIA	95-02		985,511,288	6,058,892	72,434,339	23,345,767	131,528,231	5.63	1.82
PENNSYLVANIA	81-02		1,228,288,432	7,688,901	90,461,958	36,733,026	156,667,996	4.27	1.73
Performance comparison of Buy-Up vs. CAT									**Avg. Pmt/A.**
PA BUYUP	95-02		596,446,558	3,196,192	57,597,156	23,345,767	120,621,722	5.17	38
PA CAT	95-02		389,064,730	2,862,700	14,837,183		10,906,509		4

Note: Reflects the premium portion of additional $ 4.5 million of producer cost share during 2000-02 provided by the Commonwealth of PA.